

Treasury Investment Workshop

POST-BANKRUPTCY CASH INVESTMENT MANAGEMENT DIRECTIVES

NO LEVERAGE

- PROHIBIT THE USE OF REVERSE-
REPURCHASE AGREEMENTS
- ELIMINATE THE USE OF DEBT TO
ENHANCE YIELDS

NO VOLATILE STRUCTURED NOTES (DERIVATIVES)

- **ELIMINATE COMPLEXITY AND UNRELATED
INDICES RISK**

\$ 1.00 NET ASSET VALUE

- MARK TO MARKET
- GASB 31

DIVERSIFIED PORTFOLIO

REDUCE CONCENTRATIONS IN ANY ONE ISSUER

REDUCE CREDIT RISK

MORE SEC 2a-7 LIKE

TIGHTER THAN STATE CODE

State Investment Code

Total Holdings from One Issuer

Certificate of Deposit	30%
Bankers Acceptance	30%
Medium Term Note	30%
Commercial Paper*	<u>10%</u>
	100%

Orange County is Self- Limited to 5%

*** 10% CP Limit Codified by Recent Legislation that was
Submitted by Orange County**

SHORT-TERM

- MINIMIZE INTEREST RATE RISK
- MONEY MARKET (RULE 2a-7) FORMAT

GOV'T CODE VS RULE 2a-7			
OVERALL RESTRICTIONS	GOV'T CODE	RULE 2a-7	Money Mkt Fd
ISSUER LIMIT (EX. GOVIES/MMF)	NOT MENTIONED	5%	5%
CREDIT RATING MINIMUMS	NOT MENTIONED	1 OF 2 HIGHEST NRSRO RATINGS	2 of 3 HIGHEST NRSRO RATINGS
WEIGHTED AVERAGE MATURITY	NOT MENTIONED	90 DAYS	90 DAYS
MAX MATURITY	5 YEARS	13 MONTHS	13 MONTHS
INVESTMENT TYPE	CODE	RULE 2a-7	Current MMF
OVERALL RESTRICTIONS	GOV'T CODE	RULE 2a-7	Money Mkt Fd
ISSUER LIMIT (EX. GOVIES/MMF)	NOT MENTIONED	5%	5%
CREDIT RATING MINIMUMS	NOT MENTIONED	1 OF 2 HIGHEST NRSRO RATINGS	2 of 3 HIGHEST NRSRO RATINGS
WEIGHTED AVERAGE MATURITY	NOT MENTIONED	90 DAYS	90 DAYS
MAX MATURITY	5 YEARS	13 MONTHS	13 MONTHS
MAX EXPOSURE	10%		10%
ISSUER LIMIT	30%		5%
BANKERS ACCEPTANCES			
MAX EXPOSURE	40%		40%
ISSUER LIMIT	30%		5%
SHORT-TERM CREDIT RATINGS		RESTRICTIONS ABOVE	A1, P1 or F1
MAX MATURITY	270 DAYS		180 DAYS
MAX MATURITY	180 DAYS		270 DAYS
REPURCHASE AGREEMENTS			
MAX EXPOSURE	NOT MENTIONED		50% / 5%
MAX MATURITY	1 YEAR	"	90 DAYS
MIN COLLATERALIZATION	102%		102%
MAX MATURITY	1 YEAR	"	90 DAYS
MEDIUM TERM NOTES			
MAX EXPOSURE	30%		30% / 5%
LONG-TERM CREDIT RATINGS	A or A		A, A, or A
ISSUER DOMICILE	U.S.A.	"	13 MONTHS
MAX MATURITY	5 YEARS		
MONEY MARKET FUNDS			
MAX EXPOSURE	20%	"	20%
MAX PER FUND LIMITATION	10%		10%
COLLATERALIZED OBLIGATIONS			
MAX EXPOSURE	20%	"	10% / 5%
MAX MATURITY	5 YEARS	"	90 DAYS
MIN ISSUE/ISSUER RATINGS	AA or Aa, A or A		AA or Aa, A or A

INVESTMENT POLICY STATEMENT

- REVIEWED ANNUALLY
- CERTIFICATE OF EXCELLENCE - MTA

COMPLIANCE TESTING

- DAILY BASIS INTERNALLY
- QUARTERLY BY FITCH
- ANNUALLY BY INTERNAL AUDIT

OVERSIGHT

- TREASURER'S ADVISORY COMMITTEE
- TREASURY OVERSIGHT COMMITTEE (SB 866)

FULL DISCLOSURE

- MONTHLY TREASURER'S MANAGEMENT REPORT
- COMPREHENSIVE ANNUAL FINANCIAL REPORT
(AUDITED BY EXTERNAL CERTIFIED PUBLIC ACCOUNTANTS)
- WEB SITE

POOL RATINGS

- FITCH
- NOT DONE BY STATE

INVESTMENT RISK MANAGEMENT

- ECONOMIC AND MARKET RESEARCH
- ANTICIPATE FEDERAL RESERVE BOARD ACTIONS
- PRE-APPROVE CREDIT ISSUERS
- REVIEW PREVIOUSLY APPROVED ISSUERS FOR CONTINUANCE
- MONITOR CREDIT RISK

BROKER/DEALER DIVERSITY

- MULTIPLE RELATIONSHIPS
 - PRIMARY
 - SECONDARY
 - DIRECT ISSUERS
- SHORT-TERM INSTRUMENTS
- NO BIAS TO “ROGUE” BROKER

COMPARISON AND CONTRAST TO OTHER FUNDS

Orange County Employees' Retirement System

Invests with a Long- Term Perspective

January 31, 2001

Domestic Fixed Income	35.45%
Domestic Equities- Large Core Passive	17.19%
International Equities	14.36%
Domestic Equities- Large Value	8.20%
Real Estate	6.92%
Venture Capital	4.97%
International Fixed Income	4.12%
Domestic Equities- Small Value	2.60%
Domestic Equities- Small Growth	1.37%
Timber	1.09%
Cash *	0.49%

* Total Cash Position, Including Managers, is 1.6%

Rated, First Tier, Institutional Money Market Funds

(Averages from "Rated Money Fund Report," February, 2001 data;
representing \$326.9 billion in assets under management)

		<u>OCEIP</u>
Commercial Paper	47%	39.5%
Bank Obligations	21%	30.2%
Floating Rate Notes/ MTN's	16%	21.4%
Repurchase Agreements	11%	3.0%
US Other	4%	5.6%
US Treasury	1.0%	0.0%
Money Market Funds	<u>0.0%</u>	<u>0.3%</u>
	100%	100%

THE MONEY MARKET INDUSTRY HAS JUST RECENTLY
GROWN TO MORE THAN \$1.0 TRILLION

WHY HAVE WE DONE THIS?

- FOCUS ON SAFETY, LIQUIDITY, THEN YIELD
- PROVIDE AN “OPEN SHOP”
- RUN A MONEY MARKET FUND
- AVOID “TABLOID” RISK
- COMFORTABLE WITH CONSERVATIVE APPROACH
- WE MANAGE CASH (NOTE 3 OF CAFR)

Timeline From January 16

- ~Jan 16- Fitch downgrades EIX short-term to D.
- ~Jan 16- Fitch notifies OCTTC of downgrade of OCEIP. Statement released to Press.
- ~Jan 16, 17, 18- Respond to all media inquiries.
- ~Jan 18- Received monthly interest payment by EIX on the \$20.0mm MTN.
- ~Jan 19- Ad Hoc committee for Edison International creditors was formed.
- ~ Jan 19 - Edison International issues press release assuring payment of existing debt.
- ~Jan 23- Treasurer makes full disclosure presentation to Board of Supervisors.
- ~Jan 31- \$20 million Commercial Paper (CP) matured. Principal and interest received.

Timeline To Present

- ~Feb 1- California Legislature passed AB1 enabling purchase of long-term power contracts.
- ~Feb 16- California leaders agree on plan to pay down utilities' debts.
- ~Feb 20- Interest received on Medium Term Note (MTN) as scheduled. Edison International's banks give forbearance.
- ~Feb 23- Southern California Edison reaches conceptual agreement to sell transmission lines for \$2.76 billion to the State.
- ~March 19- Interest received on Medium Term Note (MTN) as scheduled.
- ~March 19- Edison International suspends common stock dividend.

TOP FIVE TAXPAYERS IN ORANGE COUNTY

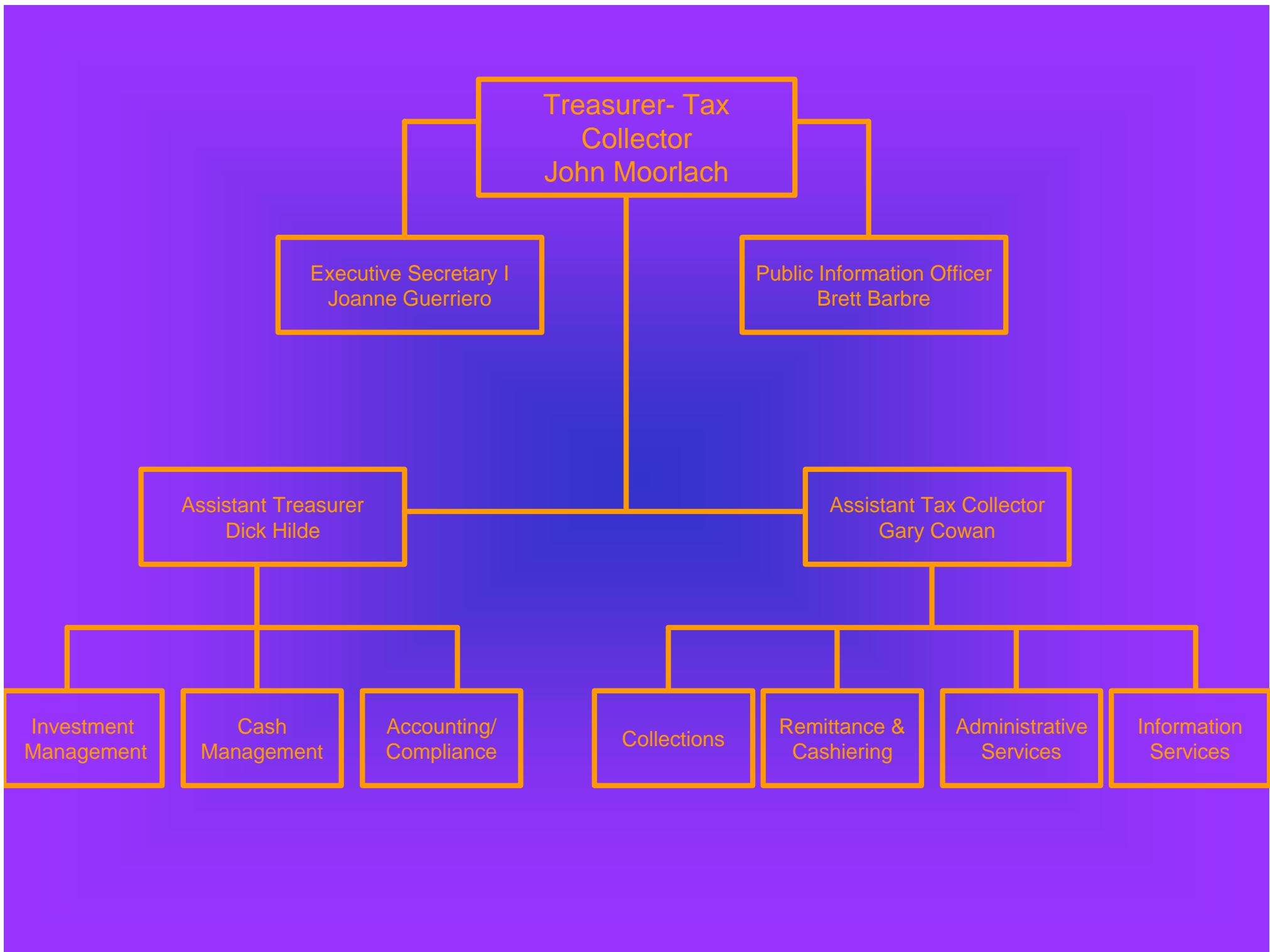
(2000/2001 SECURED TAX ROLL, IN MILLIONS OF \$)

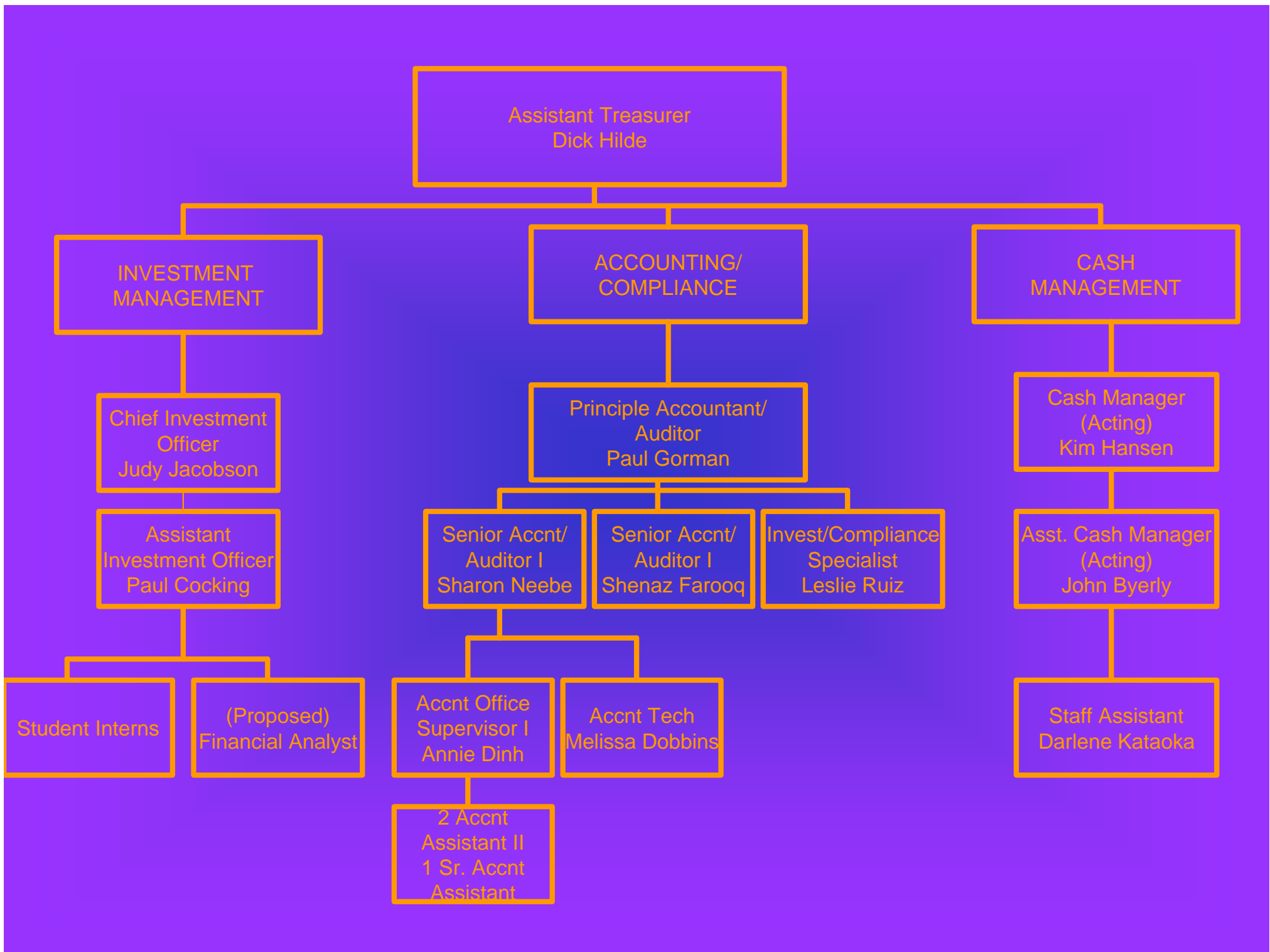
IRVINE COMPANY	\$33.911 MM
IRVINE APART. COMM.	\$16.893 MM
WALT DISNEY CO.	\$14.787 MM
SO. CAL. EDISON	\$14.289 MM
PACIFIC BELL & SUBS	\$12.213 MM

WHAT HAVE WE DONE AS A RESULT OF EDISON INTERNATIONAL?

- CREDIT WATCH NEGATIVE
- SPLIT RATED COMMERCIAL PAPER
- DELEGATION LANGUAGE
- APPROVAL OF TRADES

**STANDARD & POOR'S PUT THE STATE'S AA
RATING ON CREDIT WATCH NEGATIVE IN
LATE JANUARY.**





ANATOMY OF A TRADE

Prepare for Tomorrow



Pre-Trade Routine



Trading Procedure



Prepare for Tomorrow

Prepare for Tomorrow's Investing

AT END OF DAY- INVESTMENT OFFICERS MEET TO:

REVIEW

- AVAILABLE CASH
- CURRENT PORTFOLIO HOLDINGS

DISCUSS

- IDEAL PURCHASE SCENARIOS
TYPES, MATURITIES, ISSUERS, ETC.
- CASH FLOW NEEDS

FINALIZE NEXT DAY'S PLAN

Pre-Trade Routine

BEGINNING OF DAY (5:30 A.M.)

INVESTMENT OFFICERS REVIEW:

- FINANCIAL MARKETS (BLOOMBERG)
- BROKER/ DEALER MESSAGES
- BROKER/ DEALER INVENTORIES
- PROPRIETARY INVESTMENT COMPLIANCE SOFTWARE



Microsoft
PowerPoint Presentation



Microsoft
PowerPoint Presentation

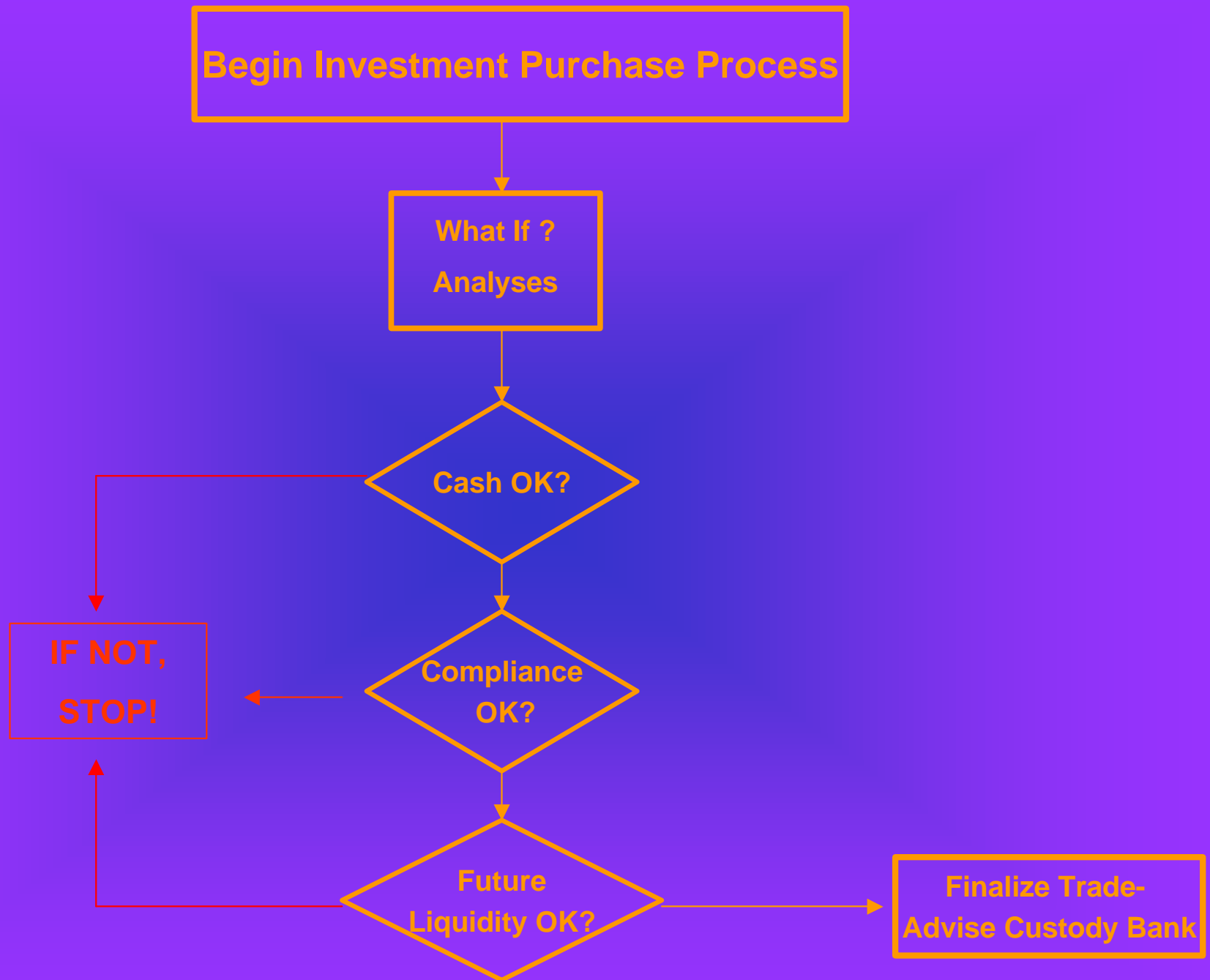


Microsoft
PowerPoint Presentation



Microsoft
PowerPoint Presentation

Trading Procedure



TECHNICAL INCIDENT VS. NON-COMPLIANCE INCIDENT

NON-COMPLIANCE INCIDENTS

The percentage constraints are not in accordance to the IPS at the time of a security's purchase.

TECHNICAL INCIDENTS

As long as the percentage constraints adhere to the IPS at the time of a security's purchase, later changes in the value of assets would constitute a “Technical Incident.”

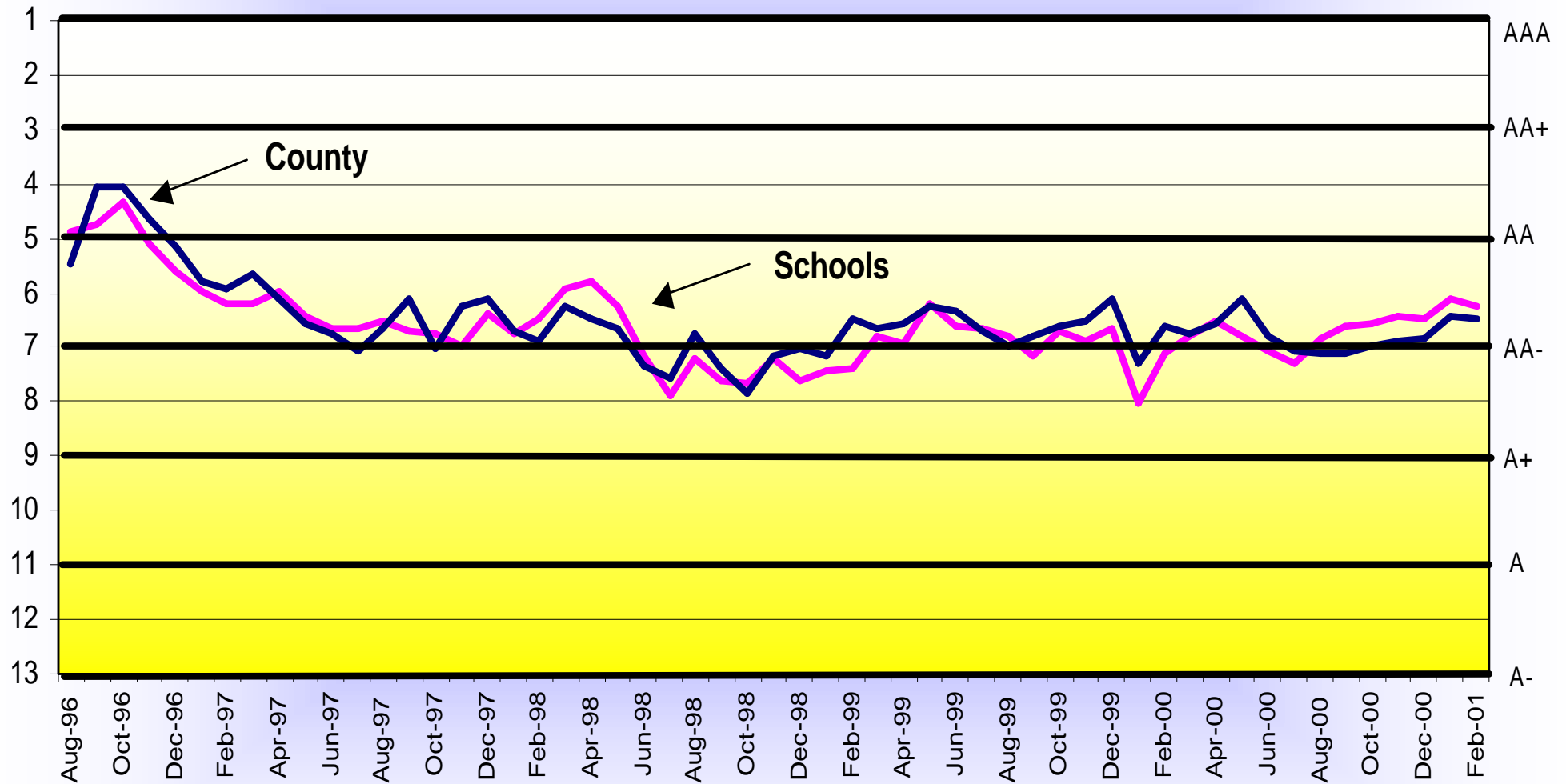
2a-7 ISSUER DIVERSIFICATION REQUIREMENTS

- CAN PURCHASE UP TO 25% OF PORTFOLIO IN A SINGLE ISSUER
- CAN MAINTAIN POSITION FOR 3 BUSINESS DAYS
- ONLY ONE ISSUER AT A TIME

**WHAT ARE THE RESULTS OF THIS
INVESTMENT PROCESS?**

ORANGE COUNTY TREASURY

MONTH-END WEIGHTED-AVERAGE CREDIT RATINGS



ECONOMIC OBSERVATIONS

“Much to the financial markets disappointment, Chairman Greenspan did not give any indication that the FOMC would take action before the next meeting on March 20. The financial markets and our Investment Management Committee are expecting a 50 basis point interest rate reduction at that time.”

INVESTMENT MANAGEMENT COMMITTEE

Federal Open Market Committee Action- 45 for 47; or 95.74%

COMPETITIVE YIELD

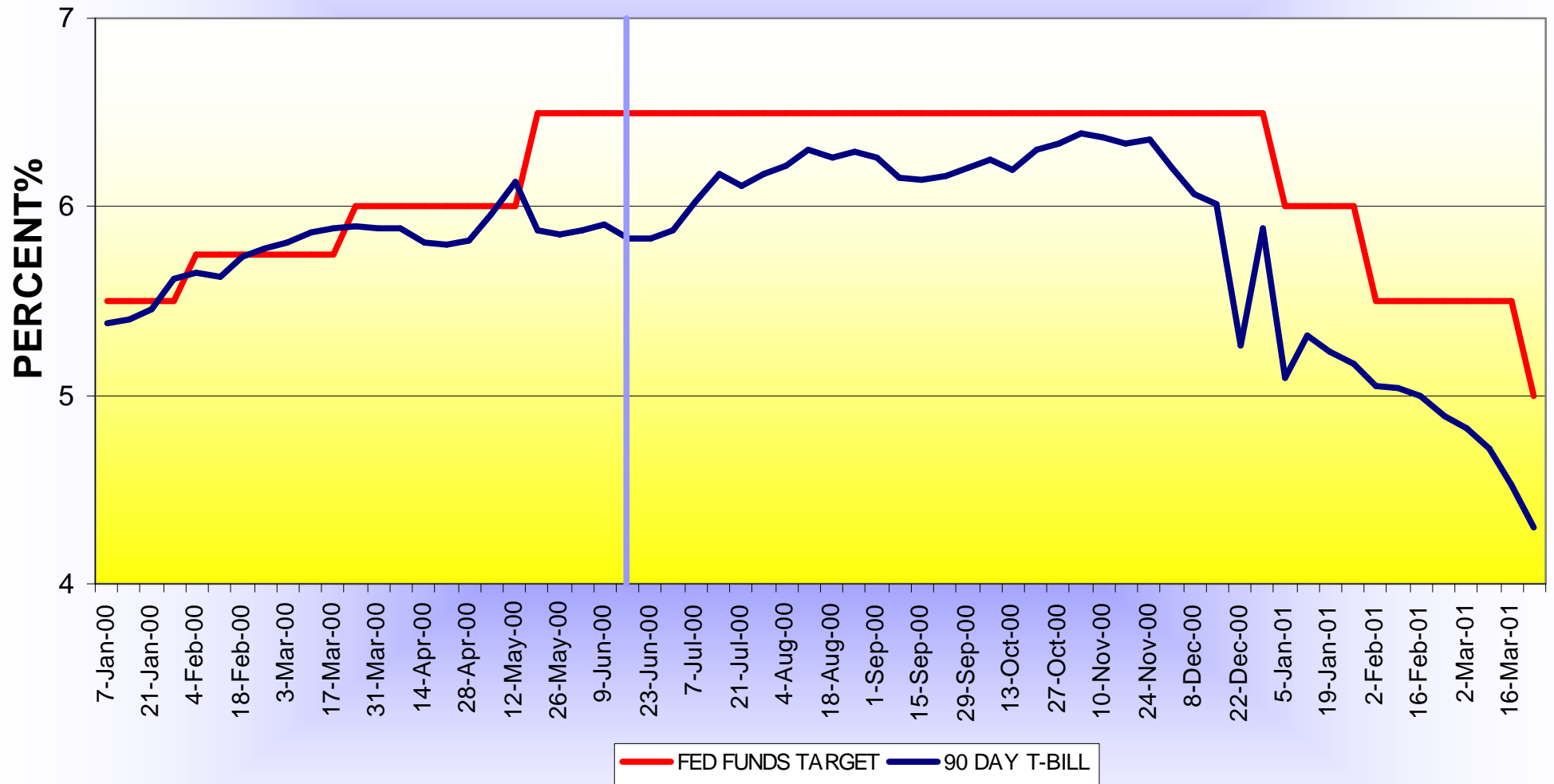
(Averages for February, 2001 data)

OCEIP	(30-Day Annualized)	6.02
First Tier Institutional Avg.	(30-Day Annualized)	5.52

COMPETITIVE EXPENSE RATIO

Orange County	0.125%
First Tier Institutional Avg.	0.40%

FED FUNDS TARGET RATE & 90 DAY T-BILL



X-FUND

(FEBRUARY 28, 2001)

US Other	57.78%
Medium Term Notes	21.83%
Bank Obligations	17.48%
Commercial Paper	<u>2.91%</u>
	100%

X-FUND AND MMF YIELDS

(ON MARCH 23, 2001)

COUNTY MMF	5.71%
X-FUND	6.40%

WEIGHTED AVERAGE MATURITY COMPARISON TO “SISTER” COUNTIES

(December, 2000)

		<u>YIELD</u>
Riverside	241	6.42%
San Bernardino	293	6.44%
San Diego	281	6.61%
Orange County (combined)	128	6.77%

ADDITIONAL IMPROVEMENTS FOR THE FUTURE

- TREASURY WORK STATION (IN PROCESS)
- FINANCIAL ANALYST
- BROKER/ DEALERS
- COMBINE POOLS
- ADD TOC MINUTES TO MONTHLY REPORTS

DETAILED MONTHLY TREASURER'S REPORT

I.	Cover letter.	1
II.	Investment Pool balances at market value and book cost, average maturities, current and average yields, current net asset values, and investment and cash to fund accounting reconciliation.	3
III.	Benchmark comparisons	4
IV.	Composition charts and graphs.	6
V.	Cash availability projection per California Government Code Section 53646(b)(3). . .	17
VI.	Statement of accountability.	18
VII.	Portfolio investment inventory with market values.	19
VIII.	Detail Transaction Report.	52
IX.	Investment inventory daily report as of month end by maturity dates.	62
X.	Noncompliance Report	72
XI.	Distribution List.	74